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SUBJECT: GALILEO AND THE EU -- NAVIGATING THE PORK BARREL

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REF: Munich 412

SUMMARY

¶1. (SBU) EADS-Astrium officials told Embassy Berlin EMIN and ConGen Munich that the Galileo satellite navigation project is proceeding under its new EU funding mechanism, albeit well behind schedule. The officials expressed frustration at the Byzantine web of EU politics and blatant promotion of contracts for national champions by EU member states, often resulting in expensive redundancies. EADS-Astrium would like to see closer cooperation with U.S. industry on the project, cooperation which has been limited to date due to an attempt to keep the program all European. The Galileo story offers a textbook illustration of the challenges of carrying-out EU projects while satisfying the parochial demands of member states.

STATE OF PLAY

¶2. (SBU) Embassy Berlin EMIN and ConGen Munich met December 14 with Dr. Wilfried Bornemann, EADS-Astrium's Director for Navigation Germany, Thomas Mayer, the firm's Chief of Business Development for Galileo, and Ulrich Scheib, Head of Strategic Development for Galileo. Astrium is the "space" division of EADS (European Aeronautic Defense & Space), offering equipment and services for launchers, manned spaceflight, civil and military satellites and ground systems. EADS-Astrium has a central role in the design and development of Galileo, the proposed European counterpart to the Pentagon's Global Positioning System (GPS).

¶3. (U) Since our last meeting with EADS-Astrium in July in the wake of the collapse of the Public-Private-Partnership, or "PPP" (REFTEL), the EU has developed a funding model for Galileo using EU public funds. At least \$1.48 billion in public funds has already been spent on the project. Of the remaining \$3.5 billion needed to complete the project, \$2.4 billion will come from "excess" EU agriculture funds and the rest from EU research, transport and administration budgets. As the main contributor of EU agriculture funds, Germany would have been reimbursed for a large share of those excess funds. For that reason it voted against the funding proposal on November 23, but was defeated 26-1.

¶4. (SBU) On November 30, EU governments agreed to jointly complete the development of Galileo, with the European Commission setting a December 31 deadline for final approval of the program. Spain was

the lone holdout this time, over the location of ground stations. In seeking unanimity, the EU subsequently won Spain's approval with a deal that left open the possibility that a ground station planned for Spain to monitor emergency services on Galileo channels may in the future be made into a full ground control station if Spain pays for the upgrade. The original plans for Galileo only called for two ground control stations: one near Munich and another near Rome. Our EADS contacts confided that even the Rome station was an expensive redundancy, being fully-manned around the clock simply as a "backup" facility in the wake of Italian demands. Assuming the project proceeds as planned, full deployment of 30 satellites should occur by 2013. Only one of Galileo's satellites has been launched thus far, in December 2005. The second satellite missed its launch date toward the end of 2006 after it short-circuited during final testing.

SPREADING THE WEALTH

15. (SBU) Following the failure of the PPP, the European Commission drafted contracting rules to ensure both large and small companies across the EU would benefit from Galileo. The rules divide Galileo contracts into six segments covering various stages of the project. No single company can be the prime contractor for more than two segments, and prime contractors are obliged to hand over 40 percent of the order value to subcontractors. Our EADS contacts explained that one key change resulting from the new financing model is the way contracts are apportioned. Under the PPP, the European Space Agency (ESA) was responsible for financing and apportioning Galileo-related contracts. The contracts were divided among ESA members according to their contributions to the ESA - while the process was relatively transparent, it was at times complicated (for

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instance, EADS having to find sub-contractors in small ESA member states like Finland). However, with direct EU funding, contracts will now be apportioned by Brussels and administered by the ESA without a direct relationship to contributions from member states -- in theory, a big contributor country like Germany might not get a single contract. While expressing the hope that contracts will be fairly divided, our interlocutors were clearly concerned about the potential for the political manipulation of contracting decisions in Brussels by EU member states.

16. (SBU) The EADS officials anticipate EADS-Astrium will be awarded the contract for the space portion of Galileo (construction of the 30 satellites), along with ground control of the satellites. France's Thales-Alenia, they expect, will likely be awarded the contract for the ground "mission" segment -- the operation of the GPS payload aboard the satellites. Our contacts noted that German industry had the full support of Chancellor Merkel, and speculated that in the absence of an EU agreement, Germany would have elected to go it alone and set-up its own satellite navigation system. Our interlocutors explained that Germany's infrastructure, from toll-collecting to aviation to EMS services, has become increasingly dependant on GPS, leaving many in German government and industry wanting an alternative to the lone U.S. Department of Defense-controlled system. In addition, Galileo provides a key role for German contractors like EADS-Astrium - something they don't have with GPS.

LOOKING FOR CLOSER COOPERATION WITH THE U.S.

17. (SBU) Our EADS contacts insisted Galileo should be viewed as a complement to, rather than a competitor of, GPS. The additional satellites would only make it easier for all users to get a stronger signal in areas where GPS coverage alone is spotty, as in mountainous areas and near tall buildings. The EADS officials said they would like to see more cooperation with U.S. industry on Galileo, as U.S. firms have expertise in some areas that Europe lacks. They expressed frustration that initially U.S. companies were barred from participating in Galileo as sub-contractors, as it was to be an all European project. These rules have since been

relaxed, creating the hope among our contacts that in the future there could be synergies achieved in the project via cooperation between U.S. and European firms.

COMMENT

¶18. (SBU) Projects such as Galileo probably couldn't happen without the involvement of the EU. However, as our EADS contacts made clear, the EU never appears more as a collection of squabbling parochial interests than with the very same big projects it makes possible. Everything from the failure of the PPP to expensive unnecessary redundancies, such as multiple control centers, are a demonstration of the difficulty of forming and carrying out consensus projects among EU members and their national champions. We continue to believe Galileo will eventually be built, giving Europe its own version of the free GPS signal - but as expenses keep mounting, Galileo will be anything but free to EU taxpayers.

¶19. (U) This report was coordinated with Embassy Berlin.

¶10. (U) Previous reporting from Munich is available on our SIPRNET website at www.state.sgov.gov/p/eur/munich/ .

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